

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

SENTINEL SECURITY LIFE INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

as of

December 31, 2003



December 21, 2004

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable John Morrison, Commissioner
Secretary, Western Zone, NAIC
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (UCA) Title 31A, an examination was conducted as of December 31, 2003, of the financial condition and business affairs of

SENTINEL SECURITY LIFE INSURANCE COMPANY
of

Salt Lake City, Utah

a stock life insurance company, hereinafter referred to as the Company, and the following report of examination is respectfully submitted.

Scope of Examination

Period Covered by Examination

The Company was last examined as of December 31, 2000, by a representative of the State of Utah Insurance Department. The current examination covers the intervening period from January 1, 2001, through December 31, 2003, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Utah, insurance rules promulgated by the State of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and

Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2003. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiner access to requested work papers prepared in connection with its audits. These work papers were utilized by the examination, subject to testing, in the verification of balance sheet accounts and as a supplement to the procedures performed during the examination.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination work papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

Important points and recommendations noted in the prior examination report have been addressed by the Company.

HISTORY

General

The Company was incorporated in the State of Utah on March 18, 1948, under the name "Sentinel Mutual Insurance Company". The Company was granted a certificate of authority in July 1948 to conduct a life insurance business as a mutual benefit insurer. The Company's organization was sponsored by the Funeral Directors' and Embalmers' Association of Utah.

The articles of incorporation were amended July 16, 1954, changing the name of the Company to Sentinel Security Life Insurance Company. The Company also converted to a stock corporation at this same time.

There were no amendments to the articles of incorporation or the bylaws during the years under review.

Capital Stock

Authorized common stock consisted of 500,000 shares with a par value of \$7.00 per share as of December 31, 2003. The total common stock outstanding at December 31, 2003, was 359,526 shares, including 60,012 shares of treasury stock held. The articles of incorporation were amended and approved by the Department in April 2000, to increase the par value of the common stock from \$3.00 to \$7.00 per share.

UCA § 31A-1-301(19) states "There is a rebuttable presumption of control in a person who directly or indirectly owns, controls, holds with power to vote, or holds proxies to vote 10% or more of the voting securities of another person." Earl L. Tate, owner of RAVAL Investment Company, and Edward M. Grimm II, owner or beneficial owner of Analine Management Company, were both controlling persons of the Company in accordance with

the definition stated in UCA § 31A-1-301(19). Mr. Tate was both a director and officer of the Company, while Mr. Grimm was a director.

Dividends to Stockholders

The board of directors approved stockholder dividend distributions during the examination period as follows:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Rate Per Share</u>	<u>Amount Paid</u>
February 20, 2001	April 1, 2001	\$1.30	\$ 400,954
February 26, 2002	April 1, 2002	1.40	428,162
February 18, 2003	April 1, 2003	1.40	420,653

Pursuant to UCA § 31A-16-106(2) the dividends paid were not considered extraordinary.

Management

Management and control of the Company as of December 31, 2003, were vested in its board of directors whose members were as follows:

<u>Name and Residence</u>	<u>Principle Occupation</u>
Alva R. Wing Lehi, Utah	Chairman of the Board Sentinel Security Life Insurance Company
Clyde J. Allen Tooele, Utah	President Clyde J. Allen Agency
Thomas W. Bartlett, CLU Salt Lake City, Utah	President and Chief Executive Officer Sentinel Security Life Insurance Company
Earl L. Tate Tooele, Utah	Secretary Sentinel Security Life Insurance Company
Charles W. Lindquist Ogden, Utah	Vice President Lindquist & Sons Mortuary
Vaughn C. Soffe Murray, Utah	Treasurer Sentinel Security Life Insurance Company
Edward M. Grimm, II Ogden, Utah	Vice President Analine Investment Company
Fred G. Cheney Salt Lake City, Utah	Vice President and Chief Financial Officer Sentinel Security Life Insurance Company
Lenard A. Wing Lehi, Utah	Owner Wing Mortuary, Incorporated

Richard E. Felt
Brigham City, Utah

Retired

Officers were elected annually by the board of directors. Those serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Title</u>
Alva R. Wing	Chairman of the Board
Thomas W. Bartlett, CLU	President and Chief Executive Officer
Fred G. Cheney	Vice President and Chief Financial Officer
Earl L. Tate	Secretary
Vaughn C. Soffe	Treasurer

Committee members as of December 31, 2003, were:

<u>Investment Committee</u>	<u>Audit Committee</u>
Alva R. Wing	Clyde J. Allen
Thomas W. Bartlett	Charles L. Lindquist
Earl L. Tate	Richard E. Felt

Conflict of Interest

The Company had an established written procedure for disclosure to its board of directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which was in or was likely to conflict with the official duties of such person. Written disclosures were required when changes occurred; annual disclosures were not required.

Corporate Records

A review of the minutes of the board of directors and stockholders meetings revealed conformity with the requirements of the articles of incorporation concerning matters covered and authorizations made. The minutes approved and supported Company transactions. The previous examination report was distributed to the board of directors at its meeting in August 2002.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

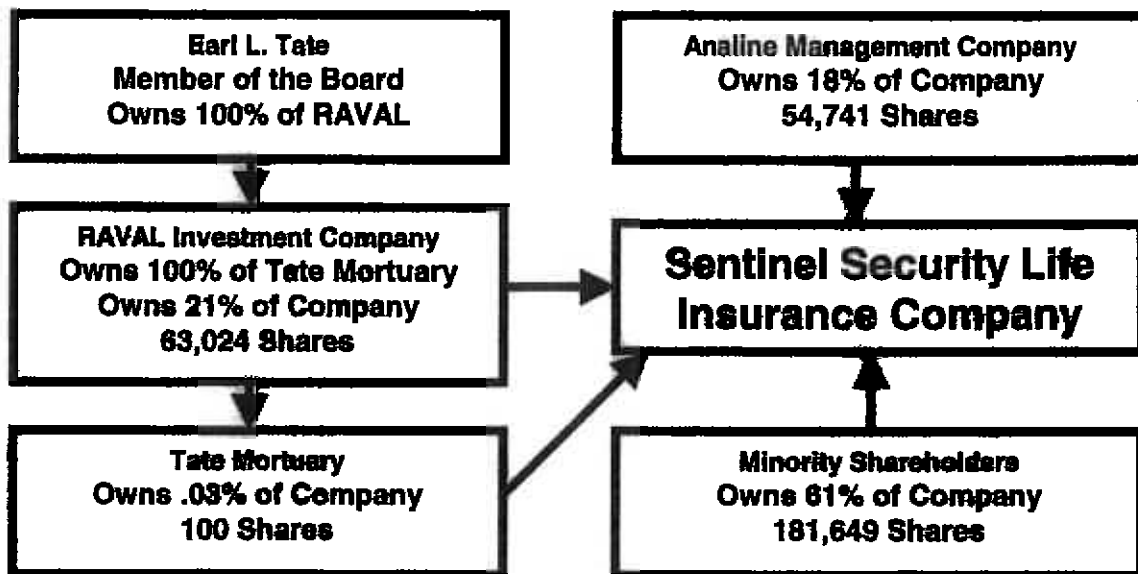
The Company was not a party to any acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the examination period.

Surplus Debentures

The Company did not have any surplus debentures outstanding as of December 31, 2003.

Affiliated Companies

The following chart describes the Company's relationships with its affiliates.



The Company had neither ownership interest in, nor agreements with, affiliated companies.

Fidelity Bond and Other Insurance

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between \$250,000 and \$300,000. At the examination date, the Company had fidelity coverage of \$250,000.

Pension, Stock Ownership, and Insurance Plans

Profit Sharing Plan / 401K Plan

The Company provided a profit sharing plan for qualifying employees. The Company had an adoption agreement with a local bank whereby the bank served as trustee of the employee profit sharing plan. The plan and related trust or custodial account, according to an Internal Revenue Service letter, qualified under Section 401 of the Internal Revenue Code.

Deferred Compensation Plan

The board of directors authorized a deferred compensation plan for management employees of the Company as of January 1, 1978. This plan had two active participants. The Company accrued a liability of \$713,208 as of December 31, 2003.

Group Life and Health Insurance

The Company provided full-time employees with group life and medical expense benefits. Employees were eligible after the first month of full-time employment. The benefits were provided to employees on a non-contributory basis. Optional dependent coverage for hospital, surgical, and major medical benefits on a partial contributory basis was also offered.

Statutory Deposits

Pursuant to UCA §31A-4-105, the Company was required, as of December 31, 2003, to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement was \$400,000 as determined by UCA §31A-5-211(2)(a).

The following schedule presents the statutory deposit made through the Utah Insurance Department for the primary benefit of all policyholders as of December 31, 2003. The additional deposit placed with the Utah Insurance Department was done so to satisfy the requirements of the State of Hawaii.

<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
US Treasury Sec Stripped	\$ 517,651	\$ 580,740
US Treasury Sec Stripped	254,252	325,140
US Treasury Bond	419,027	403,640
ITT Corporation	49,464	55,385
Morgan Stanley Dean Witter	112,100	124,421
Pacific Bell	100,524	103,027
Pennzoil Company	50,485	63,338
TVA-Linked Call Strips	110,871	124,289
	<u>\$ 1,614,374</u>	<u>\$ 1,779,980</u>

Special deposits made by or through the respective state insurance departments not held for the benefit of all policyholders, but held for the policyholders, claimants, and creditors of a particular jurisdiction follow:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
New Mexico	Bank of America CD	<u>\$ 100,000</u>	<u>\$ 100,000</u>

Insurance Products and Related Practices

Policy Forms and Underwriting

The Company issued ordinary life plans of insurance consisting of single premium, 10 and 20 pay life, whole life and increasing death benefit policies. Most policies in force as of yearend 2003 were under \$10,000 in face value and were issued on a non-medical basis.

Physical examinations may have been required depending on the age of the applicant and the amount of the policy.

The policy forms issued during the examination period were consistent with Department approved forms. The Company's retention limits were between \$5,000 to \$15,000 for term life policies and \$15,000 for accident & health policies.

Territory and Plan of Operation

The Company was licensed to conduct insurance sales in the following states:

Arizona	Idaho	Nevada	South Dakota
California	Iowa	New Mexico	Utah
Colorado	Montana	North Dakota	Washington
Hawaii	Nebraska	Oregon	Wyoming

Sales by thirty-seven (37) contracted agents were under the direction of an employee agency director.

Advertising and Sales Material

The Company primarily used direct mail and point of sale brochures in its sales and advertising effort. A comparison of advertising materials used and the related policy forms did not reveal any significant exceptions.

Treatment of Policyholders

A review of various reports from the NAIC complaints database and Utah Insurance Department consumer complaint files revealed no significant issues or any trends of policyholder mistreatment. A complaint log is maintained, although complaints were minimal during the examination period.

Reinsurance

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

During 2003, Generali USA Life Reassurance Company (Generali), through a novation agreement, purchased the Company's business from Business Men's Assurance Company of America (BMA). This novation agreement effectively substituted Generali for BMA.

As of December 31, 2003, the Company reinsured its life insurance business under an agreement which provided automatic yearly renewable term life reinsurance on standard and substandard lives between the ages of 0 through 75 inclusively up to a maximum of 400% of the Company's retention. It included provisions for waiver of premium and for facultative reinsurance.

The Company's retention limits under the automatic yearly renewable term life agreement were as follows:

<u>Ages</u>	<u>Standard</u>	<u>Substandard Tables 1 - 3</u>	<u>Substandard Tables 4 - 5</u>	<u>Substandard Tables 6 - 16</u>
0 - 75	\$15,000	\$15,000	\$12,000	\$5,000 or 50% of the risk whichever is lower

Another agreement with the same reinsurer provided for reinsurance on accidental death benefits under a bulk agreement with a retention on any covered accidental death benefit of \$15,000.

Accounts and Records

As of December 31, 2003, the Company's accounting system consisted of a general ledger, registers, statistical and other records maintained primarily on information systems equipment and software. An IBM AS/400 minicomputer was utilized which is accessed through personal computers.

A general ledger trial balance was taken as of December 31, 2003, and it was reconciled to the Company's year-end 2003 annual statement. General ledger accounts for other years covered in the examination period were reconciled to the related annual statement accounts as deemed necessary.

Financial Statements

The following financial statements were prepared from the Company's accounting records and the valuations and determinations made during the examination:

Balance Sheet as of December 31, 2003

Summary of Operations -
for the Period Ended December 31, 2003

Reconciliation of Capital and Surplus Account -
January 1, 2000 through December 31, 2003

The accompanying Notes to Financial Statements are an integral part of the financial statements.

Sentinel Security Life Insurance Company
Balance Sheet
as of December 31, 2003

ASSETS

	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 14,627,633	(1)
Preferred stocks	15,319,621	
Common stocks	8,927,145	
Mortgage loans on real estate: First liens	2,118,905	
Properties occupied by the company	309,547	
Properties held for the production of income	40,271	
Cash, cash equivalents and short-term investments	3,863,278	(2)
Contract loans	730,821	
Investment income due and accrued	244,389	
Uncollected premiums and agents' balances in course of collection	15,176	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,191,537	
Current federal and foreign income tax recoverable and interest thereon	109,960	
Net deferred tax asset	171,931	
Electronic data processing equipment and software	<u>7,529</u>	
Total net admitted assets	<u><u>\$ 47,677,743</u></u>	

Sentinel Security Life Insurance Company
Balance Sheet
as of December 31, 2003

<u>LIABILITIES</u>		<u>Notes</u>
Aggregate reserve for life contracts	\$ 24,151,848	
Liability for deposit-type contracts	288,559	
Contract claims: Life	256,144	
Dividends not yet apportioned	23,000	
Coupons and similar benefits	1,100	
Premiums and annuity considerations for life and accident and health contracts received in advance	21,044	
Interest maintenance reserve	324,489	
Commissions to agents due or accrued	94,122	(3)
General expenses due or accrued	114,175	
Taxes, licenses or fees due or accrued excluding federal income taxes	3,342	
Unearned investment income	13,362	
Amounts withheld or retained by company as agent or trustee	145,798	
Amounts held for agents' account	3,868	(4)
Remittances and items not allocated	713,208	
Liability for benefits for employees and agents	1,443,252	
Asset valuation reserve	<u>27,597,311</u>	
Total liabilities		
Common capital stock	2,516,685	
Unassigned funds (surplus)	18,458,745	
Treasury stock	(894,999)	
Total capital and surplus	<u>20,080,431</u>	(5)
Total liabilities, capital and surplus	<u>\$ 47,677,742</u>	

**Sentinel Security Life Insurance Company
Summary of Operations
for the Period Ended December 31, 2000**

INCOME

	<u>Amount</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 4,978,596
Net investment income	2,596,517
Amortization of Interest Maintenance Reserve (IMR)	20,828
Sundry Income	4,983
Interest on federal tax refunds	19,611
Totals	<u>7,620,535</u>

BENEFITS

Death benefits	2,114,458
Matured endowments	26,326
Annuity benefits	954
Disability and death benefits under accident and health contracts	1,151
Coupons, guaranteed annual pure endowment and similar benefits	956
Surrender benefits and other fund withdrawals for life contracts	393,241
Interest and adjustments on contract or deposit-type contract funds	7,481
Increase in aggregate reserves for life and accident and health contracts	505,061
Totals	<u>3,049,628</u>

EXPENSES

Commissions on premiums and annuity considerations and deposit-type funds	1,018,314
General insurance expenses	2,045,166
Insurance taxes, licenses and fees excluding federal income taxes	190,887
Increase in loading on deferred and uncollected premiums	59,751
Total benefits and expenses	<u>6,363,746</u>
Net gain (loss) from operations before federal income taxes	1,256,789
Dividends to policyholders	22,170
Net gain (loss) from operations after dividends to policyholders and before federal income taxes	1,234,619
Federal income taxes incurred	<u>(193,277)</u>
Net gain (loss) from operations after federal income taxes and before realized capital gains (losses)	1,427,896
Net realized capital gains or (losses)	<u>(281,304)</u>
Net gain (loss)	<u>\$ 1,146,592</u>

Sentinel Security Life Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2000 through December 31, 2003

	Prior Exam 2000	2001	2002	Per Exam 2003
Capital and surplus, December 31, prior year	\$ 17,041,434	\$ 18,209,056	\$ 19,036,916	\$ 18,940,542
Net income	1,643,809	1,473,658	1,054,801	1,146,592
Change in net unrealized capital gains (losses)	295,234	(1,346,752)	(1,889,903)	886,825
Change in net deferred income tax			88,050	838,219
Change in nonadmitted assets and related	(51,203)	(5,034)	38,570	(746,864)
Change in asset valuation reserve	(277,140)	1,135,645	1,267,732	(442,823)
Change in treasury stock	(91,385)	(51,443)	(265,713)	(42,325)
Dividend to stockholders	(386,701)	(400,954)	(428,162)	(420,650)
Employee benefit adjustment	35,010	22,743	38,251	(79,085)
Company owned policy & miscellaneous	(2)	(3)		
Net change in capital and surplus for the year	<u>1,167,622</u>	<u>827,860</u>	<u>(96,374)</u>	<u>1,139,889</u>
Capital and surplus end of reporting year	<u><u>\$ 18,209,056</u></u>	<u><u>\$ 19,036,916</u></u>	<u><u>\$ 18,940,542</u></u>	<u><u>\$ 20,080,431</u></u>

Notes to Financial Statements

(1) Bonds

\$14,627,633

As of December 31, 2003, the Company reported Bonds of \$14,527,633.

A certificate of deposit of \$100,000 was reclassified to Bonds from Cash pursuant to SSAP No. 26. SSAP No. 26 states that certificates of deposits with a maturity date in excess of one year shall be classified as a bond.

Two of the Company's invested assets, held as of December 31, 2003, were not maintained in compliance with UCA § 31A-4-108 and UAC Rule R590-178. UAC Rule R590-178 specifies provisions required in the custodial agreement referenced in UCA § 31A-4-108(1). UAC Rule R590-178-5(B) states, "Custodial securities held in violation of this rule shall be disregarded in determining and reporting the financial condition of an insurer." In January and November 2004, a security in each respective month was transferred to the Company's trust account that has a custodial agreement, which is in compliance with UAC Rule R590-178. Thus the invested assets were admitted for examination purposes. However, the examination recommends that the Company execute compliant custodial agreements with their brokers to ensure the safekeeping of securities being temporarily held for transfer to their trust account.

(2) Cash, cash equivalents and short term investments

\$3,863,278

As of December 31, 2003, the Company reported Cash of \$3,963,278. The Company did not report any cash equivalents or short-term investments.

Pursuant to SSAP No. 26 the examination reclassified a certificate of deposit of \$100,000 to Bonds since the investment maturity was in excess of one-year.

(3) Commissions to agents due or accrued

\$94,122

As of December 31, 2003, the Company reported Commissions to agents due or accrued of \$0.

Commissions to agents of \$94,122 were reclassified from Amounts held for agents' account to Commissions to agents due or accrued to be consistent with the Annual Statement Instructions.

(4) Amounts held for agents' account

\$0

As of December 31, 2003, the Company reported Amounts held for agents' account of \$94,122.

Pursuant to the Annual Statement Instructions commissions to agents of \$94,122 was reclassified from Amounts held for agents' account to Commissions to agents due or accrued.

(5) Capital and Surplus

\$20,080,431

Adjustments made to balances reported by the Company are identified below:

<u>Description</u>	<u>Annual Statement Dr (Cr)</u>	<u>Per Examination</u>	<u>Change in Surplus Inc. (Dec.)</u>	<u>Notes</u>
Bonds	\$ 14,527,633	\$ 14,627,633	\$ 100,000	(1)
Cash, cash equivalents and short-term investments	3,963,278	3,863,278	(100,000)	(2)
Commissions to agents due or accrued		94,122	(94,122)	(3)
Amounts held for agents' account	94,122		94,122	(4)
Total Examination Changes				
Total capital and surplus per Company			20,080,431	
Total capital and surplus per Examination			<u>\$ 20,080,431</u>	

The Company's minimum adjusted capital requirement, pursuant to UCA § 31A-17-609, was \$400,000. The Company reported total adjusted capital of \$21,535,183 and had an authorized control level risk-based capital (RBC) requirement of \$1,537,710 as of December 31, 2003.

Summary


Items of significance or special interest contained in this report are summarized below:

1. The Company's minimum adjusted capital requirement, pursuant to UCA § 31A-17-609, was \$400,000. The Company reported total adjusted capital of \$21,535,183, an authorized control level risk-based capital (RBC) requirement of \$1,537,710 as of December 31, 2003. **(Notes to Financial Statements)**

Conclusion

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company is acknowledged. Mr. Thomas Burger of Taylor-Walker and Associates, Inc. conducted the actuarial phases of the examination.

Respectfully submitted,


Allen J. Hart, CFE
Examiner-in-Charge
Utah Insurance Department